ShareAction»

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Charlie Nunn
Lloyds Banking Group
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Dear Mr. Nunn,

I am writing to you following the launch of ShareAction's latest report on banks' target-setting '**Mind the strategy gap: how disjointed climate targets are setting banks up to miss net-zero. An assessment of the decarbonisation and sustainable finance targets set by Europe's largest banks**'. We are extremely grateful for your sustainability team's contribution to our report and for all the positive engagement we have had with Lloyds Banking Group, such as Sarah Wire and Kevin Treco's attendance at our green finance roundtable.

We are approaching 2025, the five-year countdown to 2030 – a key milestone financial institutions are working towards in their net-zero trajectories. Climate disaster continues to worsen at an alarming rate. Scientists from the World Weather Attribution (WWA) report that 2024 saw the deadliest swathe of extreme heat waves ever recorded, including in Europe, where in July alone there were at least 23 fatalities due to intolerable temperatures across Portugal, Spain, France, Italy and Morocco. Recent severe flooding in Valencia, Spain, has affected 74,400 people, resulting in an estimated death toll of over 200 people.

Banks play a critical role in averting unliveable climates by reducing their finance to fossil fuels and increasing finance to sustainable alternatives. There has never been a more important time for banks to ensure their net-zero strategies are underpinned by scientifically robust and complementary decarbonisation and sustainable finance targets, designed to have a real-world impact on the green transition of the global economy.

ShareAction's latest report shows that banks have made progress on setting an array of targets to reach net-zero by 2050. Positively, Europe's 20 largest publicly listed banks have now all committed to net-zero by 2050, and most banks now report progress against their sectoral decarbonisation targets annually in relative and absolute terms. However, our report finds that banks' sustainable finance and decarbonisation targets are disconnected from each other, employing inconsistent designs, diverging accounting practices, and different timeframes. It is particularly concerning that so few sustainable finance targets are grounded in climate scenarios or the investment needs of specific sectors to transition. They lack both the scientific foundations and granularity that banks need to navigate complex transitions, overcome constraints on progress, and cultivate new opportunities for their services. The incentive to artificially inflate targets rather than engage in the hard work of growing sustainable finance means the current generation of targets are unlikely to shift the necessary capital to meet their own net-zero goals, increasing the risk of a disorderly transition.

Our analysis showed that whilst all 20 banks have set at least one sector-specific decarbonisation target, only nine banks have set sector sustainable finance targets. This makes it difficult for investors to know how the bank is planning to decarbonise specific sectors, and whether it plans to allocate any of its sustainable financing to specific clients and/or activities to ensure it meets its decarbonisation intentions and achieve real world impact. For example, the absence of targets specific to the power sector makes it hard for stakeholders to understand how the banks' sustainable finance strategy supports their commitments to decarbonise their power portfolios and align with investment needs. Meanwhile, many sustainable finance frameworks fail to include enabling infrastructure such as grids and storage, which could undermine the banks' strategy to decarbonise power portfolios and ramp-up financing for renewable energy.

Positively, Lloyds Banking Group is close to achieving the clean energy to fossil fuel investment ratio the International Energy Agency (IEA) says is needed to stay within 1.5C. We predict Lloyds Banking Group will achieve a ratio of 8.9:1 in 2030, whilst the IEA says $10 to every $1 ratio of clean energy to fossil fuel investment is needed. However, there is still room for Lloyds Banking Group to be significantly more ambitious. We find that compared to 13 other European banks with an overarching sustainable target, Lloyds Banking Group has the second least ambitious target relative to its size (second only to Santander). We estimate that the bank's sustainable finance comprises just 0.9% of its total assets, whereas the median in our sample is 2.4%. Furthermore, our report finds that Lloyds Banking Group's sustainable real estate target falls short of what is needed to achieve net-zero in the sector.

We are calling on banks to set targets which are ambitious, transparent and coherent. We ask that Lloyds Banking Group:

1. Ground its sustainable finance targets in a clear robust methodology, disclosing how sustainable finance targets are quantified relative to the bank's decarbonisation commitments or credible scenarios, whilst also acknowledging Lloyds Banking Group's historical responsibility;
2. Set sectoral targets to underpin high-level sustainable finance targets, starting with renewable energy, and outline a strategy for increasing finance for enabling infrastructure and early-stage technologies;
3. Ensure its decarbonisation and sustainable finance targets are set in a consistent and comparable way by:
    a. Including the same products and services
    b. Applying the same accounting principles
    c. Using consistent time frames
4. Demonstrate how these targets – now coherent and consistent – are leading to real-world impact by disclosing:
    a. How Lloyds Banking Group's emissions reductions are driven by clients' performance and changes in exposure, and how changes in exposure are driven by its sustainable finance;
    b. Which sectors, activities, and types of financing are in scope of sustainable finance targets and the criteria used to define what constitutes sustainable finance;
    c. The real-world impact of the bank's sustainable financing, starting with energy.
5. Complement these targets with robust sector policies which consider human rights and environmental impacts (such as financing exclusions for companies expanding oil and gas).

Banks should be doing a lot more than they are currently doing to finance the transition to a green and just economy. But, as our report recognises, the success of banks' targets also relies on external factors. Banks should transparently highlight which parts of their strategy critically depend on the actions of others and use their influence to ensure capital flows to sustainable activities at the scale and pace needed to avert the climate crisis. We encourage Lloyds Banking Group to set sector targets even in sectors facing regulatory challenges or other obstacles, and for the bank's leaders to highlight where and how these structural barriers could be alleviated in aid of more impactful sustainable financing. Importantly, target-setting is not a substitute for setting and adhering to robust sector policies, such as ending project and corporate finance for oil and gas companies with expansion plans.

We are committed to engaging with and supporting Lloyds Banking Group in the development of its policies and targets, and hope that our constructive dialogue will continue throughout 2025. As a next step, we expect you to take material action on your sustainable finance strategies by the end of 2025 by adhering to the asks above, or ShareAction and investors may consider taking escalatory action in 2026.

I ask that you respond to bankingteam@shareaction.org in writing by the **15th February 2025**. I truly wish you and your team a wonderful Christmas break and look forward to building on our valuable relationship in the new year.

Warm regards,

Jeanne Martin

Head of Banking Programme

ShareAction